

U.S. DEPARTMENT OF COMMERCE
Office of Inspector General



U.S. CENSUS BUREAU

***Management Controls Over Reimbursable
Agreements at the U.S. Census Bureau
Need Improvement***

Final Audit Report No. FSD-16824-5-0002/March 2005

**PUBLIC
RELEASE**

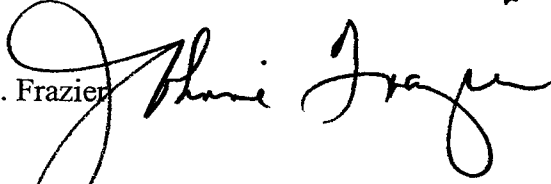
*Office of Audits
Financial Statements and Accountability Division*



UNITED STATES DEPARTMENT OF COMMERCE
The Inspector General
Washington, D.C. 20230

MAR 31 2005

MEMORANDUM FOR: Charles Louis Kincannon
Director, U. S. Census Bureau

FROM: Johnnie E. Frazier 

SUBJECT: *Management Controls Over Reimbursable Agreements at
the U. S. Census Bureau Need Improvement*
Final Audit Report No. FSD-16824-5-0002

This is our final report on the U. S. Census Bureau's management of reimbursable agreements with other government agencies and sales of fixed fee products and services to the public. While providing these services, Census reported revenue of \$227 million in fiscal year (FY) 2003 and \$248 million in FY 2004.

Our audit showed that reimbursable activity reviewed is consistent with the bureau's mission and the cost of work performed under reimbursable authority is being recovered. However, our audit also identified the need for Census to strengthen management controls over the reimbursable agreement process. Specifically, improvement is needed in (1) the execution of reimbursable agreements and (2) the clarification of policy on legal reviews of reimbursable agreements. Also, we found that (1) the bureau's Acquisition Division needs a more effective tool to use in monitoring reimbursable agreement activity; and (2) official reimbursable agreement files should be properly maintained with all required documentation.

In responding to the draft report, the U. S. Census Bureau concurred with all four recommendations. Accompanying the response were action plans detailing the corrective actions taken and planned by the bureau on each of the recommendations.

We have reviewed the Census Bureau action plans addressing the findings and recommendations in this audit report. We concur with the actions taken and planned as described in the audit action plan. Accordingly, pursuant to Department Administrative Order (DAO) 213-5, we regard the audit report as resolved. The complete Census Bureau response and action plans are attached to the report as Appendix I.

We appreciate the cooperation and courtesies your staff extended to us during our review.

Attachment

cc: Ted Johnson, Associate Director for Finance and Administration
Andrew Moxam, Comptroller



INTRODUCTION

The Economics and Statistics Administration (ESA), is comprised of ESA headquarters (Office of Under Secretary for Economic Affairs), the Bureau of Economic Analysis (BEA), and the U. S. Census Bureau. ESA collects demographic and economic data through the decennial census and other surveys, and produces economic measures such as the gross domestic product (GDP) and the balance of payments. For FY 2004, Census Bureau earned total revenue of approximately \$248 million through reimbursable activity with government agencies and fixed-fee sales of products to the public. In FY 2003, Census had earned \$227 million providing these services.

The U. S. Census Bureau performs surveys, data collections, data sales, and special censuses for federal, state, and local governments and for other organizations. The bureau receives reimbursements from the entities it services to offset the costs of its work. The primary legal authorities governing Census reimbursable agreements are 13 United States Code (U.S.C.) Section 8 (b) (The Economy Act) and 15 U.S.C. § 1525 and §1526 (Special Studies Statute). These grant the authority to perform special work or services on a cost basis.

Census Mission Statement

The Census Bureau serves as the leading source of quality data about the nation's people and economy. We honor privacy, protect confidentiality, share our expertise globally, and conduct our work openly.

The Census policy on accepting reimbursable agreements identifies eight categories of reimbursable projects: (1) data collection from households or individuals, (2) data collection from establishments and institutions, (3) administrative records/data linking, (4) technical assistance/ consulting services, (5) analytic research or reporting, (6) special censuses, (7) special tabulations, and (8) national processing center projects not involving data collection.

Over the years, Office of Inspector General (OIG) reports have frequently identified problems with Departmental reimbursable activities, including those at the Census Bureau. OIG reports have identified such issues as (1) negotiated reimbursable agreements with sponsors that were not based on full cost as required by legal and administrative authorities and (2) agreements that did not consistently comply with federal requirements. OIG reports have also identified that Commerce's oversight process was inadequate and a Department-wide database for recording basic data on agreements was needed. In response, the Department's Chief Financial Officer and Assistant Secretary for Administration issued the *Interim Interagency and Other Special Agreements Handbook* to provide guidance for the use, management, and oversight of the Department's reimbursable activities.

OBJECTIVES, SCOPE, AND METHODOLOGY

Our audit objectives included (1) identifying the reimbursable activities within Census, (2) determining whether reimbursable activity is consistent with the bureau's goals and objectives and whether applicable laws and regulations are being followed, and (3) assessing whether appropriate management controls are in place. We also assessed whether Census was recovering full costs for its work. Our audit scope included reimbursable agreements in place during FY 2003 and FY 2004. Applicable laws and regulations guiding this audit included:

- **Census Policy and Procedures Manual (PPM)**, Chapter D-5, "*Reimbursable Work – Interagency and Other Special Agreements*," dated June 2004, which requires that "A fully executed agreement is in place *prior* to the start of any related work." The PPM also states that a "Temporary Work Authority (TWA) may authorize work for federal customers up to a 90-day period upon receipt of a letter of intent from the customer."
- **DOC Accounting Principles and Standards Handbook**, Chapter 11, Fees and Revenues, Section 4.04, User Fees, dated April 2000, which states, "In compliance with the Chief Financial Officer Act and OMB Circular A-25, *User Charges*, operating units are to review biennially all fees, royalties, rents and other charges imposed by the agency for goods and services rendered, and other items of value."
- **GAO Standards for Internal Control in the Federal Government**, dated November 1999, which states "Transactions should be promptly recorded to maintain their relevance and value to management in controlling operations and making decisions. This applies to the entire process or life cycle of a transaction or event from the initiation through its final classification in summary records."
- **DOC Interim Interagency and Other Special Agreements Handbook**, dated May 3, 2004, requires all agreements to undergo legal review unless specifically exempted and requires the operating unit responsible for managing the agreement to maintain an official file for each agreement.

We interviewed Census officials responsible for processing and monitoring reimbursable agreements and reviewed applicable federal, Departmental and Census guidance and legislation. Our audit of management controls included a review of 43 reimbursable agreements totaling \$178,263,445 and 7 fixed-fee products and services totaling \$201,220 to determine if the work performed was consistent with the bureau's mission. We also identified and tested management controls, determined if cost estimates were adequately supported; and evaluated the clarity of the Census policy on legal reviews. With the exception of testing the completeness of the Acquisition Division's database, we did not test the reliability of computer-generated data because such data were not essential to our audit objectives.

We primarily conducted our fieldwork from May to November 2004 at U. S. Census Bureau headquarters in Suitland, Maryland. We performed this audit in accordance with *Government Audit Standards* issued by the Comptroller General of the United States, and under the authority of the Inspector General Act of 1978, as amended, and Department Organization Order 10-13, dated May 22, 1980, as amended.

FINDINGS AND RECOMMENDATIONS

Census generated a reported \$227,285,000 in revenue during FY 2003, which consisted of \$225,184,608 in reimbursable agreements and \$2,100,392 in sales of fixed-fee products and services. During FY 2004, Census generated \$248,481,000 in revenue, consisting of \$245,598,609 in reimbursable agreements and \$2,882,391 in sales of fixed-fee products and services.

Our audit showed that the reimbursable activity is consistent with the bureau's mission and the cost of work performed under reimbursable authority is being fully recovered. However, our audit also identified that management controls over the reimbursable agreement process can be improved. Specifically, improvements are needed in (1) the execution of reimbursable agreements and (2) the clarification of policy on legal reviews. Also, we identified that (1) the Acquisition Division needs a more effective tool to use in monitoring reimbursable agreement activity; and (2) official reimbursable agreement files should maintain all required documentation. We are pleased to note that Census management has already taken some corrective actions in response to our preliminary audit findings, but improvements still are needed in the bureau's reimbursable agreement process.

I. Reimbursable activity is consistent with Census mission and the cost of work performed is being recovered

Our audit showed that the reimbursable activity performed by Census (reimbursable agreements and fixed-fee products) is consistent with the bureau's mission and that the cost of work performed for these activities is being recovered.

From a universe of 206 items, we found that the 43 reimbursable agreements and 7 fixed-fee products and services reviewed were consistent with statutory authority and in support of the bureau's mission to serve as the leading source of quality data about the nation's people and economy.¹ We determined this by reviewing reimbursable agreements, statements of work, memorandums of understanding, temporary work authorities, modifications, and addendums. The primary legal authorities granting Census the authority to perform special work or services on a cost basis include 13 U.S.C. Section 8 (b) and 15 U.S.C. § 1525 and §1526.

We found that full costs were recovered for work performed. Our audit included a review of 11 reimbursable agreement projects totaling \$116.55 million in FY 2003 and FY 2004.

¹ FYs 2004 – 2008 U. S. Census Bureau Strategic Plan

To determine whether costs are being recovered, we reviewed Census Financial Management Reports (FMR) which track costs in various divisional, fund, project, and cost categories and are furnished each month to the Census Bureau's Executive Staff and to each division. In addition to the financial information provided in the FMR reports, we also reviewed the Reimbursable Project Management (RPM) Report, which provides agreement authority amounts based on signed agreements and the balance of funds based on the authorized amount. Also, we verified inter-agency transfer of funds by agency locator code used by the federal agencies when making advance payments for reimbursable agreements with Census. We reviewed FMR and RPM reports for each project and found that 9 of 11 projects showed a positive balance, meaning full costs were being recovered and projects were not being run at a deficit. One project cost overrun was subsequently recovered, and an authorized fund transfer by the customer covered the deficit for the remaining project.

Also, our audit found that reviews of user charges for fixed-fee products and services were conducted biennially in FY 2002 and FY 2004, as required by OMB Circular A-25 and in accordance with Department of Commerce policy contained in the Accounting Principles and Standards Handbook, Chapter 11. The Census reviews determined that full costs were being recovered.

II. Execution of reimbursable agreements needs improvement and the policy on legal reviews needs to be clarified

We found that the bureau's handling of reimbursable activity and fixed-fee sale of products and services needs improvement. For example, we found reimbursable agreements were executed and signed after the start date of the period of performance specified in the agreement. In some cases there was no TWA or modification to cover the period from the start of performance period until the agreement was formally executed. Finally, the Census Policy and Procedures Manual (PPM), Chapter D-5, "*Reimbursable Work – Interagency and Other Special Agreements*," does not clearly establish criteria to determine which reimbursable agreements are specifically exempt from legal reviews.

A. Execution of reimbursable agreements needs improvement

During our assessment of management controls, we reviewed a judgment sample of 43 reimbursable agreements and 7 fixed-fee products and services with estimated project costs of over \$178 million with periods of performance in FY 2003 and FY 2004. Census generated \$227 million in revenue during FY 2003 and \$248 million during FY 2004.

Our audit found that 13 of 43 (30 percent) reimbursable agreements with estimated project costs of about \$132 million were without a signed agreement authority or TWA more than 30 days after the start of the period of performance stated in the agreement. A TWA is a work authorization after Census receives a letter of intent of financial responsibility from the federal customer and allows the customer up to 90 days to provide a formal agreement. Census did not prepare the necessary TWA to extend the period of performance for those 13 reimbursable agreements.

In projects when a TWA was in effect, we found that six TWAs authorized temporary work for more than the allotted 90 days. Census Policy and Procedures Manual (PPM), Chapter D-5, *Reimbursable Work – Interagency and Other Special Agreements*, states that a, “Temporary Work Authority may authorize work for federal customers up to a 90 day period upon receipt of a letter of intent from the customer.”

To account for the late agreement executions, Census Bureau officials said they relied on prior year carryover of funds to start new reimbursable work. However, we found that carryover funds were not always sufficient to cover the entire cost of the project. For example, one project with an estimated FY 2003 cost of \$27,055,000 only had a carryover of funds of \$1,117,000 from FY 2002, leaving an unfunded balance of \$25,938,000 for FY 2003. Another project with an estimated FY 2003 cost of \$37,879,800 only had a carryover of funds of \$716,800 from FY 2002 leaving an unfunded balance of \$37,163,000 for FY 2003.

When a signed agreement is not present prior to the start of work, the Census Bureau incurs the risk that the customer may not have the budget authority or sufficient carryover of funds from prior fiscal years to cover the total project cost.

Census management has begun taking corrective action on this issue. Census officials informed us that they have met with major federal customers to discuss the timeliness of interagency agreements. Census documented discussions with two federal customers in January 2003 and March 2004. However, we found that after meeting to discuss the timeliness of signing agreements with Census officials in January 2003 the same major customer signed six reimbursable agreements more than 30 days after the start of the period of performance stated in the agreements. This indicates that additional improvements are needed.

B. Census policy on legal reviews needs to be clarified

DOC Interim Interagency and Other Special Agreements Handbook, dated May 3, 2004, states that all agreements should receive legal review unless specifically exempted.”

However, the current Policies and Procedures Manual (PPM), Chapter D-5, “*Reimbursable Work – Interagency and Other Special Agreements*,” does not state which reimbursable agreements are specifically exempt from legal reviews. Because such criteria are not included in the PPM, it is unclear which Census reimbursable agreements require legal reviews and which do not.

None of the 43 reimbursable agreements or the 7 fixed-fee products and services in our audit sample had a legal review. Census Bureau officials informed us that recurring survey agreements, special census projects, and special product sales are specifically exempt from legal reviews. They said the projects did not undergo legal review because they felt such review was unnecessary after Census Legal Office had reviewed and approved the initial standard Customer Acceptance Notification form. After meeting with the Census Legal Office, the Census Legal Office provided us with a memorandum, dated September 30, 2004, which states:

With respect to reimbursable agreements involving monies coming into the Census Bureau from outside entities, Census Legal Office does not review each and every agreement. Rather, it initially reviewed and approved the newly established reimbursable agreement Customer Acceptance Notification form (RADG002) which is currently used for incoming reimbursables, and cites the authority(s) for the Bureau to engage in work to be performed. After Census Legal Office reviewed and approved the initial standard Customer Acceptance Notification form it was not necessary to review each subsequent reimbursable agreement, because the authority for the Census Bureau to enter into such agreements remains the same Title 13 U.S.C. § 8(b) and Title 15 U.S.C., §1525. The authority of the other entities to enter into such agreement(s) has been reviewed and determined to be appropriate by the other entities' lawyers. Census Legal Office is not in a position to question the other entities' authority.

According to the Census Legal Office, the initial model agreement for the Census Bureau's undertaking of special censuses under the authority of title 13 U.S.C. §196, is another example of a reimbursable agreement which it does not review each time. Again, once the initial Memorandum of Understanding (MOU) is reviewed and approved by Census Legal Office, it believes there is no need to review each and every special census MOU.

Census Legal Office also developed a new log of reimbursable agreements in response to our audit and to provide a more precise audit trail for future audits. However, the model agreement for special censuses and subsequent MOUs, which are not reviewed by Census Legal office, is not included in PPM and should be included in the Census PPM.

The Census Bureau is in the process of updating its *Policies and Procedures Manual (PPM)* Chapter D-5, "Reimbursable Work – Interagency and Other Special Agreements," and has provided an advance draft to us. We reviewed the draft and commented that the PPM does not clearly state when a reimbursable agreement is exempt from legal review. We encourage Census to address the issues we have identified in the revised PPM.

C. Recommendations

The Director of the U. S. Census Bureau should require that:

- (1) Fully executed agreements are in place prior to the start of any reimbursable work or a Temporary Work Authority is prepared in advance to authorize work for federal customers for up to a 90 day period upon receipt of a letter of intent; and
- (2) The *Policies and Procedures Manual (PPM)* Chapter D-5, be updated to clarify which agreements, products, and services are *specifically* exempt from legal review. The PPM should be consistent with Departmental guidance.

III. The Acquisition Division needs a more effective tool for monitoring reimbursable agreements and agreement documentation needs improvement

We found that some reimbursable projects were not included in the Census Acquisition Division database. Also, project folders were incomplete and official agreement documents were located in different divisions at the Census Bureau.

A. Acquisition Division database does not provide an effective monitoring tool

The Acquisition Division database maintained by Census does not contain complete information on reimbursable agreements. This limits the effectiveness of the database as a tool to monitor reimbursable activity. Our audit found that 14 of 43 (33 percent) reimbursable agreement project numbers with agreement authority totaling \$5.9 million were not recorded in the FY 2004 Acquisition Division database. Acquisition Division officials said they do not reconcile the database to the actual number of signed reimbursable agreements because they do not rely on the existing database to monitor reimbursable agreements. Census officials said instead they rely on the sponsoring and budget divisions, which also monitor reimbursable agreements.

During our audit, an Acquisition Division official explained that Census is considering developing the Commerce Administrative Management System (CAMS) Reimbursable Agreement Upgrade (RAU) module's reporting capability in order to track the status of all reimbursable agreements. Census would like to make the Acquisition Division database obsolete and develop a new system for monitoring reimbursable agreements.

B. Agreement documentation needs improvement

We found that no specific Census division has responsibility for maintaining official agreement files with all required documentation at a central location. We found that 18 of 43 (42 percent) reimbursable project files did not have all required documents such as signed agreements, cost estimates, or TWAs.

In addition, Statement of Work, Memorandum of Understanding, original signed agreements, cost estimate worksheets, and Temporary Work Authority documents were located in different offices such as the Finance, Sponsoring, and Field divisions. As a result, all the required documentation is not contained in "an official agreement file" at any one central location.

The Department's Interim Interagency and Other Special Agreements Handbook, dated May 3, 2004, Chapter 8, Recordkeeping, Official Agreement File, requires that, *"This file, must contain a copy of agreement an all amendments, revisions, or changes with original signatures."* Failure to include all the required documentation in an official agreement file hinders effective monitoring of reimbursable work.

C. Recommendations

The Director of the U. S. Census Bureau should ensure that:

- (1) The Acquisition Division develops and uses a more effective tool for monitoring reimbursable activity; and
- (2) All required documentation is included in each Official Agreement File.

The U. S. Census Bureau Response and OIG Comments

In responding to the draft audit, Census expressed its agreement that stronger management controls are needed to improve the execution of reimbursable agreements, policy documentation, and monitoring of agreement activity and official files. Attached to the response were action plans detailing the corrective actions being taken and planned to address the concerns raised within this report.

The action plans are responsive to our recommendations. Census should be commended for the prompt corrective actions that are being taken to address the issues raised concerning its reimbursable agreements.



UNITED STATES DEPARTMENT OF COMMERCE
Economics and Statistics Administration
U.S. Census Bureau
Washington, DC 20233-0001
OFFICE OF THE DIRECTOR

MAR 24 2005

MEMORANDUM FOR William F. Bedwell Jr.
Acting Deputy Assistant Inspector General for Auditing

Through: Kathleen B. Cooper
Under Secretary for Economic Affairs

From: Charles Louis Kincannon
Director

Subject: Draft Audit Report No. FSD-16824-5-0002

We have reviewed the draft audit report, *Management Controls Over Reimbursable Agreements at the U.S. Census Bureau Need Improvement*. We agree with your assessment that stronger management controls are needed to improve the execution, policy documentation, and monitoring of agreement activity and files.

We are also pleased with your audit assessment that our reimbursable activity is consistent with the Census Bureau's mission and that the cost of reimbursable work is being recovered.

As a result of our own internal reviews and your audit findings, we have developed an action plan to address the specific findings contained in your report. We have attached a copy of the audit action plan for your review and consideration. The Census Bureau will continue to review our internal operating procedures and related policy guidance in order to continually improve our reimbursable work program and meet Departmental requirements.

Thank you and your staff for the professional manner in which the audit was conducted and findings were presented. If you have any further questions or comments, please contact our Comptroller, Andrew H. Moxam, at (301) 763-9575.

Attachment

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U.S. Census Bureau
Reimbursable Agreements
Office of Inspector General Exit Conference Report

Recommendation 1: *The Director of the U.S. Census Bureau should require that fully executed agreements are in place prior to the start of any reimbursable work or a Temporary Work Authority is prepared in advance to authorize work for the federal customers for up to a 90 day period upon receipt of a letter of intent.*

Action Taken or Planned:

The Census Bureau continues to address late Interagency Agreement (IA) issues with the federal customers that we have had problems with in the past. We recently met with staff from the National Center for Health Statistics about problematic IA timing issues and were convinced that they will work with us to produce fully executed IA/work agreements in a more timely manner at the onset of FY 2006 and beyond.

Additionally, we are enhancing our *Policies and Procedures Manual (PPM)* to provide more specific guidance to our internal operating units on fully executed agreements and use of the Temporary Work Authority. We also continue to encourage our internal operating units to prepare IAs in a timely fashion in order to ensure agreements are sent to our customers in time for them to return these fully executed to us.

Target Implementation Date:

We will continue to meet with federal customers if or when we encounter additional late IA issues. The final draft of the enhanced PPM guidance for internal operating units will be available by March 31, 2005. We will provide your office with a copy for review.

OIG Concurrence: _____

Chris [Signature]

Date: 3/25/05

Recommendation 2: *The Director of the U.S. Census Bureau should ensure that the Policies and Procedures Manual, (PPM) Chapter D-5, be updated to clarify which agreements, products, and services are specifically exempt from legal review. The PPM should be consistent with Department Guidance.*

Action Taken or Planned

We have made the changes to the PPM, Chapter D-5, that specifically cover which types of reimbursable agreements require legal clearance. Of course, all payable agreements originating within the Census Bureau require legal clearance. Moreover, any reimbursable agreement not conforming to the already approved Commerce Business System (CBS), Reimbursable Agreement Upgrade (RAU) Module format, requires legal clearance.

Target Implementation Date:

This is already in place.

OIG Concurrence: Chris Rose

Date: 3/25/05

Recommendation 3: *The Director of the U.S. Census Bureau should ensure that the Acquisition Division develops a more efficient tool for monitoring reimbursable activity.*

Actions Taken or Planned:

We are migrating from a desktop database to the CBS, RAU reporting features to track the agreement preparation, review, mail-out, acceptance, and closeout activities. This report will be much more accessible to the operating units that create the agreements and the Finance, Budget, and Acquisition Divisions that provide administrative oversight.

Additionally, we have developed a deficit-reporting and ratification process that monitors spending in reimbursable work projects. Monthly reports identify spending in excess of agreement authority and require actions by our internal operating units to remedy the problem. We have provided recent memorandum guidance to those units, and will follow up with additional guidance in the PPM, Chapter D-5.

Target Implementation Date:

We have defined the current set of reports available in the RAU and identified the process by which they will be used. In order to disseminate this process to our internal operating units, we will provide them with specific instructions on the use of the agreement tracking function within the CBS by approximately March 31. PPM D-5 will cover the use of the RAU reports and the deficit reporting and ratification process.

OIG Concurrence: Chris Rose

Date: 3/25/05

Recommendation 4: *The Director of the U.S. Census Bureau should ensure that all required documentation is included in each Official Agreement File.*

Actions Taken or Planned:

The Finance and Acquisition Divisions will both maintain reimbursable work project files for their own review and reference purposes. The Acquisition file will contain a copy of the agreement and Statement of Work as a pending/proposed agreement, with copies of the documentation required for internal approvals, as follows:

- Cost estimate
- Executive summary for all IAs over \$500,000
- Policy Acceptance Criteria for all new work
- Routing slip for internal approvals

The Acquisition file will be updated with a copy of the signed and countersigned agreement, upon being notified by the Finance Office that the order is accepted. The Finance file will contain a copy of the agreement as an order accepted with the following documentation:

- Original signed and countersigned copy of the IA and Statement of Work
- Billing schedule information

The Finance and Acquisition Divisions will perform a quarterly check on a sample of 20 reimbursable work agreements to ensure both offices have complete files.

Target Implementation Date:

The definition of the agreement files and filing procedures are already in place. We will perform the first quarterly check/reconciliation at the end of March 2005. The results of this reconciliation will be available to your office by April 15.

OIG Concurrence: _____

Chris Rpe

Date: 3/25/05